

EXPEDITORS INTERNATIONAL OF WASHINGTON INC

Form DEF 14A

March 31, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

**Expeditors International of Washington, Inc.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:  
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- (1) Amount Previously Paid:  
(2) Form, Schedule or Registration Statement No.:  
(3) Filing Party:  
(4) Date Filed:

**EXPEDITORS INTERNATIONAL  
OF WASHINGTON, INC.**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**Wednesday, May 4, 2005**

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To the Shareholders of Expeditors International of Washington, Inc.

The Annual Meeting of Shareholders of EXPEDITORS INTERNATIONAL OF WASHINGTON, INC. (the Company) will be held at 2:00 in the afternoon, on Wednesday, May 4, 2005, at the Company's offices located at 1015 Third Avenue, Seattle, Washington, for the following purposes:

- (1) To elect seven (7) directors, each to serve until the next annual meeting of shareholders and until a successor is elected and qualified;
- (2) To approve and ratify adoption of the 2005 Stock Option Plan;
- (3) To consider a shareholder proposal concerning shareholder ratification of the independent auditor selection; and
- (4) To transact such other business as may properly come before the meeting.

Shareholders of record on the books of the Company at the close of business on March 10, 2005, will be entitled to notice of and to vote at the meeting and any adjournment thereof.

By Order of the Board of Directors

Jeffrey J. King  
Secretary

Seattle, Washington  
March 31, 2005

**YOUR VOTE IS IMPORTANT**

**Whether or not you plan to attend the meeting in person, please sign, date and return the accompanying proxy in the enclosed stamped and addressed envelope; or submit your vote and proxy by telephone or by Internet in accordance with the instructions on your proxy card. This will ensure a quorum at the meeting. The giving of the proxy will not affect your right to vote at the meeting if the proxy is revoked in the manner set forth in the accompanying proxy statement.**

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**EXPEDITORS INTERNATIONAL  
OF WASHINGTON, INC.**

**1015 Third Avenue, Suite 1200**

**Seattle, Washington 98104**

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**PROXY STATEMENT**

**ANNUAL MEETING OF SHAREHOLDERS**

**MAY 4, 2005**

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**INFORMATION REGARDING PROXIES**

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors of Expeditors International of Washington, Inc. (the "Company") for use at the annual meeting of shareholders (the "Annual Meeting") to be held at the Company's offices at 1015 Third Avenue, Seattle, Washington on Wednesday, May 4, 2005, at 2:00 p.m. local time, and at any adjournment or adjournments thereof. Only shareholders of record on the books of the Company at the close of business on March 10, 2005 (the "Record Date") will be entitled to notice of and to vote at the meeting. It is anticipated that these proxy solicitation materials and a copy of the Company's 2004 Annual Report to Shareholders will be mailed to shareholders on or about March 31, 2005.

If the accompanying form of proxy is properly executed and returned, the shares represented thereby will be voted in accordance with the instructions specified thereon. In the absence of instructions to the contrary, such shares will be voted for all of the nominees for the Company's Board of Directors listed in this Proxy Statement and in the form of proxy, for approval of the Company's 2005 Stock Option Plan and against the shareholder proposal concerning shareholder ratification of the independent auditor selection. Any shareholder executing a proxy has the power to revoke it at any time prior to the voting thereof on any matter (without, however, affecting any vote taken prior to such revocation) by delivering written notice to the Secretary of the Company, by executing and delivering to the Company another proxy dated as of a later date or by voting in person at the meeting.

**VOTING SECURITIES**

The only outstanding voting securities of the Company are shares of common stock, \$.01 par value (the "Common Stock"). As of the Record Date, there were 106,828,436 shares of Common Stock issued and outstanding, and each such share is entitled to one vote at the Annual Meeting. The presence in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required to constitute a quorum for the transaction of business at the Annual Meeting. Shares of Common Stock underlying abstentions and broker non-votes will be considered present at the Annual Meeting for the purpose of determining whether a quorum is present.

Under Washington law and the Company's charter documents, if a quorum is present, the seven nominees for election to the Board of Directors who receive the greatest number of votes cast by persons present in person at the Annual Meeting or represented by proxy shall be elected Directors. Abstentions and broker non-votes will have no effect on the election of directors. With respect to the proposals to approve and ratify adoption of the 2005 Stock Option Plan and the shareholder proposal concerning shareholder ratification of the independent auditor selection, such proposals will be approved by a majority of the votes cast, including abstentions, by persons present at the Annual Meeting or represented by proxy and entitled to vote on the proposal. An abstention from voting on either proposal will have the effect of a vote Against. Broker non-votes on a proposal will, however, have no effect because such non-votes are not considered shares entitled to vote on the proposals.

Proxies and ballots will be received and tabulated by EquiServe Trust Company, N.A., an independent business entity not affiliated with the Company.

The Common Stock is listed for trading on the NASDAQ National Market under the symbol EXPD. The last sale price for the Common Stock, as reported by NASDAQ on March 10, 2005, was \$56.29 per share.

#### PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information, as of March 10, 2005, with respect to all shareholders known by the Company to be beneficial owners of more than five percent of its outstanding Common Stock. Except as noted below, each person has sole voting and dispositive powers with respect to the shares shown.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Class
Ruane, Cunniff & Goldfarb Inc.(1) 767 Fifth Avenue New York, NY 10153-4798	12,796,257	11.98 %

(1) The holding shown is as of December 31, 2004, according to Schedule 13G dated February 14, 2005 filed by Ruane, Cunniff & Goldfarb Inc. ( Ruane ), an investment advisor. Ruane reports that it has sole voting power with respect to 5,257,497 shares.

**PROPOSAL 1 ELECTION OF DIRECTORS****Nominees**

The Company by-laws require a Board of Directors composed of not less than six nor more than nine members. A Board of Directors consisting of seven directors will be elected at the Annual Meeting to hold office until the next annual meeting of shareholders and until their successors are elected and qualified. The Board of Directors has unanimously approved the nominees named below. All nominees named below are members of the current Board of Directors.

Unless otherwise instructed, it is the intention of the persons named in the accompanying form of proxy to vote shares represented by properly executed proxies for the seven nominees of the Board of Directors named below. Although the Board of Directors anticipates that all of the nominees will be available to serve as directors of the Company, should any one or more of them not accept the nomination, or otherwise be unwilling or unable to serve, it is intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors.

The following table lists the names and ages, and the amount and nature of the beneficial ownership of Common Stock of each nominee, of each of the Named Executive Officers described in the Summary Compensation Table, and all directors and executive officers as a group at March 10, 2005. Except as noted below, each person has sole voting and dispositive powers with respect to the shares shown.

Name	Age	Amount and Nature of Beneficial Ownership	Percent of Class
<b>Nominees:</b>			
Peter J. Rose(1)	61	1,217,982	1.14 %
James L.K. Wang(2)(3)	56	526,208	*
R. Jordan Gates(4)	49	391,390	*
James J. Casey(5)	72	154,800	*
Dan P. Kourkoumelis(5)	53	176,000	*
Michael J. Malone(6)	60	100,000	*
John W. Meisenbach(6)	68	155,000	*
<b>Additional Named Executives:</b>			
Glenn M. Alger(7)	48	1,119,268	1.05 %
Robert L. Villanueva(8)(9)	52	180,958	*
Rommel C. Saber(10)	47	361,372	*
All directors and executive officers as a group (22 persons)(2)(11)(12)		5,976,665	5.59 %

\* Less than 1%

(1) Includes 460,750 shares subject to purchase options exercisable within sixty days.

(2) Does not include 804,208 shares gifted to and held by an adult child of Mr. Wang, as to which Mr. Wang disclaims beneficial ownership.

(3) Includes 450,000 shares subject to purchase options exercisable within sixty days.

- (4) Includes 320,000 shares subject to purchase options exercisable within sixty days.
- (5) Includes 128,000 shares subject to purchase options exercisable within sixty days.
- (6) Includes 80,000 shares subject to purchase options exercisable within sixty days.
- (7) Includes 252,138 shares subject to purchase options exercisable within sixty days.
- (8) Includes 117,528 shares subject to purchase options exercisable within sixty days.
- (9) Does not include 100 shares gifted to a child of Mr. Villanueva as to which Mr. Villanueva disclaims beneficial ownership.
- (10) Includes 301,000 shares subject to purchase options exercisable within sixty days.
- (11) Includes 3,363,119 shares subject to purchase options exercisable within sixty days.
- (12) Does not include 400 shares gifted to children of executive officers as to which they disclaim beneficial ownership.

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All directors hold office until the next annual meeting of shareholders of the Company and until their successors are elected and qualified.

Peter J. Rose has served as a director and Vice President of the Company since July 1981. Mr. Rose was elected a Senior Vice President of the Company in May 1986, Executive Vice President in May 1987, President and Chief Executive Officer in October 1988, and Chairman and Chief Executive Officer in May 1991.

James L.K. Wang has served as a director and the Managing Director of Expeditors International Taiwan Ltd. since September 1981 and with its successor, E.I. Freight (Taiwan), Ltd., since January 1991. In October 1988, Mr. Wang became a director and Director-Far East of the Company and in January 1996 he was elected Executive Vice President. Mr. Wang was named President-Asia in May 2000. Mr. Wang has been nominated for re-election to the Board of Directors pursuant to a contractual undertaking made by the Company in connection with the 1984 acquisition of the Company's Hong Kong, Singapore and Taiwan offices. See Executive Compensation Employment Contracts and Certain Transactions.

R. Jordan Gates joined the Company as its Controller-Europe in February 1991. Mr. Gates was elected Chief Financial Officer and Treasurer of the Company in August 1994 and Senior Vice President-Chief Financial Officer and Treasurer in January 1998. Mr. Gates was elected to the office of Executive Vice President-Chief Financial Officer and Treasurer in May 2000 and has served as a director since that date.

James J. Casey became a director of the Company in May 1984. From May 1987 to December 1989, Mr. Casey was the Executive Vice President of Avia Group International, a subsidiary of Reebok and retailer of athletic shoes and sporting apparel. From December 1985 to April 1987, Mr. Casey was the Chief Operating Officer of Starbucks Coffee and Tea, a distributor of premium coffees and teas. From 1978 to November 1985, Mr. Casey was employed by Eddie Bauer, Inc., a subsidiary of General Mills and retailer of high quality recreational and sporting apparel and equipment, in various management capacities, including President-Direct Marketing.

Dan P. Kourkoumelis became a director of the Company in March 1993. From 1967 through 1998, Mr. Kourkoumelis was employed in various positions by Quality Food Centers, Inc., a supermarket chain, and became a member of its Board of Directors in April 1991. He was appointed Executive Vice President in 1983 and Chief Operating Officer in 1987, President in 1989 and served as Chief Executive Officer from 1996 to September 1998. Mr. Kourkoumelis is a member of the Board of Directors of the Western Association of Food Chains and the Great Atlantic and Pacific Tea Company.

Michael J. Malone became a director of the Company in August 1999. In 1971, Mr. Malone founded AEI Music Network, Inc. and served as the Chairman and Chief Executive Officer of this supplier of music services until its merger with DMX Music, Inc. From the May 2001 merger through February 7, 2005, Mr. Malone served as Chairman of Maxide Acquisition, Inc. the holding company for DMX Music, Inc. and a subsidiary of Liberty Media Corporation. On February 14, 2005, Maxide Acquisition, Inc. filed for Chapter 11 protection with the U.S. Bankruptcy Court for the District of Delaware. Mr. Malone is also the owner/operator of several premium hotel properties after first acquiring Seattle's Sorrento Hotel in 1981.

John W. Meisenbach became a director of the Company in November 1991. Since 1962, Mr. Meisenbach has been the President and sole shareholder of MCM, a Meisenbach Company, a financial services company. He currently serves on the Board of Directors of Costco Wholesale Corporation, a wholesale membership store chain and M Financial Holdings Incorporated dba M Financial Group, a financial services organization. Mr. Meisenbach is a trustee of the Elite Fund, an investment company registered under the Investment Company Act of 1940.

### **Board and Committee Meetings**

The Board of Directors of the Company held one meeting during the year ended December 31, 2004 and transacted business on six occasions during the year by unanimous written consent.

The Board of Directors has an Audit Committee which consists of Messrs. Casey, Kourkoumelis, Malone, and Meisenbach. Mr. Casey has been elected Chairman and our Board of Directors has determined that he is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Exchange Act. In addition, the Board of Directors has determined that each member of the Audit Committee is independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards.

The function of the Audit Committee is set forth in the Audit Committee Charter which was published as Appendix A to the 2004 Proxy Statement dated March 31, 2004. In general, these responsibilities include meeting with the internal financial staff of the Company and the independent public accountants engaged by the Company to review (i) the scope and findings of the annual audit, (ii) quarterly financial statements, (iii) accounting policies and procedures and the Company's financial reporting, and (iv) the internal controls employed by the Company. The Audit Committee also recommends to the Board of Directors the independent public accountants to be selected to audit the Company's annual financial statements and reviews the fees charged for audits and for any non-audit engagements. The Audit Committee's findings and recommendations are reported to management and the Board of Directors for appropriate action. The Audit Committee held four meetings during 2004.

The Board of Directors has a Compensation Committee which consists of Messrs. Casey, Kourkoumelis, Malone, and Meisenbach. The function of the Compensation Committee is to consider and act upon management's recommendations to the Board of Directors on salaries, bonuses and other forms

of compensation for the Company's executive officers and certain other key employees. The Compensation Committee has been appointed by the Board of Directors to administer the Company's stock option plans. The Compensation Committee held two meetings during 2004 and transacted business on one occasion during the year by unanimous written consent.

The Board of Directors established a standing Nominating Committee in 2004 which consists of Messrs. Casey, Kourkoumelis, Malone, and Meisenbach. Each member meets the listing standards of the NASDAQ stock market relating to independence and any other applicable legal requirements. The Nominating Committee did not meet during 2004.

The Nominating Committee Charter states that the Nominating Committee is to assist the Board of Directors by (i) identifying individuals qualified to become members of the Board of Directors, and to recommend the director nominees for the election to be held at the next annual meeting of shareholders; (ii) identifying individuals qualified to become members in the event of a vacancy, and to recommend to the Board of Directors qualified individuals to fill any such vacancy; and (iii) to recommend to the Board of Directors, on an annual basis, director nominees for each Board of Directors committee. The first meeting of the Nominating Committee was held in February 2005 and the Nominating Committee adopted a Policy Statement. The Nominating Committee Charter and the Policy Statement can be found on the Company's website at [www.investor.expeditors.com](http://www.investor.expeditors.com).

Each director attended at least 75% of the aggregate of the total number of Board of Directors meetings and meetings of committees of the Board of Directors on which he served. While the Company has no established policy requiring directors to attend the Annual Meeting, historically, and in 2004, all members were in attendance.

#### **Directors Compensation**

Currently directors who are not employees of the Company are each paid an annual retainer fee of \$10,000, as well as \$1,000 per diem for attendance at a Board of Directors or committee meetings. Pursuant to the Amended 1993 Directors' Non-Qualified Stock Option Plan (1993 Directors' Plan), each director who is not an employee of the Company and who is elected to office at the annual meeting of shareholders of any year will, on the first business day of the immediately succeeding month, be automatically granted an option to purchase 16,000 shares of Common Stock at the fair market value of the stock on that date.

#### **Communications with the Board of Directors**

The Company does not have formal procedures for shareholder communication with the Board of Directors. Any matter intended for the Board of Directors, or for one or more individual members, should be directed to the Company's corporate secretary at 1015 Third Avenue, Suite 1200, Seattle, Washington 98104, with a request to forward the same to the intended recipient(s). In general, all shareholder communication delivered to the Company's corporate secretary for forwarding to the Board of Directors or specified members will be forwarded in accordance with the instructions received. However, the corporate secretary reserves the right not to forward any abusive, threatening or otherwise inappropriate materials. Information regarding the submission of comments or complaints relating to the Company's accounting, internal accounting controls or auditing matters can be found on the Company's website at [www.investor.expeditors.com](http://www.investor.expeditors.com).



## **AUDIT COMMITTEE REPORT**

The Audit Committee has continuously functioned since it was established in 1984 by action of the Board of Directors. The function of the Audit Committee is set forth in a charter (the Audit Charter ) which was adopted by action of the Board of Directors on May 3, 2000.

Management is responsible for the Company's internal controls and the financial reporting process. The Company's independent auditors, selected each year by the Board of Directors at the recommendation of the Audit Committee, are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. As described in the Audit Charter, the Audit Committee's responsibility is generally to monitor and oversee these processes. Each member of the Audit Committee was and is independent of management according to both the letter and spirit of the applicable rules.

In addition to its other responsibilities under the Audit Charter, the Audit Committee has reviewed and discussed with the management of the Company the Company's audited financial statements for year ended December 31, 2004. The Audit Committee has discussed with KPMG LLP ( KPMG ), the Company's independent auditors for 2004, the matters required to be discussed by Statement of Auditing Standards 61 (Communication with Audit Committees). In addition, the Audit Committee has received from KPMG written affirmation of their independence required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and discussed with KPMG the auditor's independence from the Company and its management.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors of the Company that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

## **AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

**James J. Casey, Chairman**

**Dan P. Kourkouvelis**

**Michael J. Malone**

**John W. Meisenbach**



## EXECUTIVE COMPENSATION

### Compensation Committee Interlocks and Insider Participation

Messrs. Casey, Kourkoumelis, Malone and Meisenbach serve as members of the Compensation Committee. No member of the Compensation Committee is or has been an officer or employee of the Company and none had interlocking relationships with any other entities of the type that would be required to be disclosed in this Proxy Statement.

### Compensation Committee Report on Executive Compensation

The Company operates in the highly competitive global logistics services industry. The Company believes that the quality of its service depends upon the quality of its officers and employees. In order to succeed, the Company believes that it must be able to attract and retain qualified executives.

The Compensation Committee of the Board of Directors was established to develop and implement compensation policies, plans and programs which seek to:

- attract and retain key executives critical to the long-term success of the Company;
- enhance the profitability of the Company, and thus shareholder value, by aligning closely the financial interests of the Company's senior managers with those of its shareholders; and
- support the short- and long-term strategic goals and objectives of the Company.

Compensation for each of the Named Executive Officers, as well as other senior executives, consists of a base salary, annual incentive bonus compensation, and long-term incentives in the form of stock options. The Compensation Committee considers the competitiveness of the entire compensation package of an executive officer relative to that paid by similar companies when determining base salaries, percentage allocation of the bonus program, and grant of stock options. The Company's objective is to offer a total compensation package which gives the executive the opportunity to be paid at a level which is superior to that offered by the Company's competitors in the global logistics services industry.

**Base Salary.** Throughout its history, the Company has followed the policy of offering its officers and other key managers a compensation package which is weighted toward incentive-based compensation. Accordingly, the Company believes that annual base salaries of its executive officers are generally set well below competitive levels paid to senior executives with comparable qualifications, experience and responsibilities at other comparably-sized companies engaged in similar businesses as the Company. This belief is based on the general knowledge of the Compensation Committee and management of compensation practices in the industry and, in part, on a review of compensation disclosures in the proxy statements of such comparably-s